

## Message Text

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ACTION ARA-08

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LIMDIS

FOR ARA - WILLIAM ROGERS; L - MARK FELDMAN; EB - THOMAS ENDERS,  
TREASURY - JOHN BUSHNELL; CIEP - WAYNE SHARPE; COMMERCE - DAN  
ANILL

EO 11652: NA

TAGS: EIND, EINV, EMIN, PFOR, PE

SUBJ: MARCONA EXPROPRIATION: TUESDAY MORNING MEETING WITH  
MARCONA OFFICIALS

1. SUMMARY: WASHINGTON TEAM AND MARCONA OFFICIALS REVIEWED  
RESULTS OF MONDAY MEETING WITH COMMISSION AND DISCUSSED  
POSSIBLE NEXT STEPS. MARCONA REACTED POSITIVELY TO APPARENT  
WILLINGNESS OF GOP TO EXPLORE CONTINUING ROLE FOR MARCONA  
AS ELEMENT IN COMPENSATION PACKAGE AND AGREED WITH FISHLOW  
THAT TIME MIGHT BE RIPE FOR PROPOSAL ON INTERIM ARRANGEMENT  
THAT WOULD GET ORE MOVING AGAIN AND ESTABLISH ESCROW FUND  
RELATED TO COMPENSATION. IT WAS AGREED THAT POSITIVE IMAGE  
OF MARCONA IN PERU WAS IMPORTANT ASPECT OF SETTLEMENT AND  
MARCONA EXPRESSED WILLINGNESS TO PROVIDE TECHNICAL ASSISTANCE  
IN SEVERAL AREAS AS GESTURE IN THIS REGARD. MARCONA  
FOUND MOVEMENT IN GOP POSITION TO BE USEFUL STEP IN  
RIGHT DIRECTION ALTHOUGH VALUATION GAP REMAINS GREAT AND  
FURTH SHOWED NO INCLINATION TO GO BELOW \$100 MILLION AT  
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THIS STAGE. END SUMMARY

2. WASHINGTON TEAM MET WITH FURTH, COMPTON, AND BRADFIELD TO REPORT RESULTS OF MONDAY MEETING WITH THE COMMISSION AND REVIEW THE STATE OF PLAY.

3. FISHLOW NOTED NEED FOR MORE DETAILS ON DOLLAR BOOKS IN ORDER TO COUNTER GOP BOOK VALUE PRESENTATION, CITING PARTICULARLY REQUIREMENT TO SUBSTANTIATE INCREASE IN VALUE OF OPERATING MATERIALS BETWEEN DECEMBER 1974 AND JULY 1975. FURTH MADE AVAILABLE SET OF AUDITED DOLLAR BOOKS FOR DECEMBER 1974 AND CLARIFIED APPARENT DISCREPANCIES WITH THEIR 10-K REPORT. WITH REGARD TO OPERATING MATERIALS, FURTH SUGGESTED THAT SOLES DATA IN GOP HANDS COULD SIMPLY BE TRANSLATED INTO DOLLARS TO ARRIVE AT JULY FIGURE.

4. WASHINGTON TEAM REPORTED RESULTS OF MONDAY MEETING WITH COMMISSION, NOTING THAT AT ONE POINT IN WIDE-RANGING DISCUSSION, PERUVIAN SIDE INDICATED A WILLINGNESS TO CONSIDER SETTLEMENT WHICH MIGHT INVOLVE \$20 MILLION UP FRONT, PLUS A FIVE YEAR ONGOING RELATIONSHIP WHICH WOULD YIELD AN ADDITIONAL \$25 MILLION.

5. FISHLOW SAID SITUATION WAS DEVELOPING IN A WAY THAT WOULD MAKE IT POSSIBLE TO OFFER ARRANGEMENT LEADING TO IMMEDIATE RESUMPTION OF ORE EXPORTS WITH SOME PORTION OF PROCEEDS GOING INTO ESCROW ACCOUNT FOR USE IN CONNECTION WITH SETTLEMENT PACKAGE. FURTH AGREED IN PRINCIPAL TO THIS APPROACH AS LONG AS IT DID NOT RESULT IN AN INDEFINITELY DELAYED SETTLEMENT.

6. WASHINGTON TEAM SAW ADVANTAGES OF ESCROW ARRANGEMENT BOTH IN GENERATING FOREIGN EXCHANGE AND IMPROVING NEGOTIATING ENVIRONMENT, AS WELL AS SETTING STAGE FOR SOME FORM OF CONTINUING ROLE FOR MARCONA THAT WOULD YIELD CONTINUING PROFITS.

7. FURTH AND BRADFIELD AGREED THAT MENTION OF 20 PLUS 25 FORMULA BY PERUVIANS, WHILE FALLING SHORT OF ADEQUATE COMPENSATION, WAS A USEFUL STEP IN THE RIGHT DIRECTION.

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8. WHILE NOTING THAT DETAILS NEEDED FURTHER WORK, FISHLOW SUGGESTED THAT 25 PERCENT OF PROCEEDS INTO ESCROW MIGHT BE WORKABLE FIGURE. FURTH SAID THAT WOULD NOT BE ENOUGH, ARGUING THAT ESCROW FIGURE SHOULD BE CLOSER TO 50 PERCENT IN ORDER TO PROVIDE STRUCTURE THAT WOULD LEAD TO RELATIVELY PROMPT COMPENSATION.

9. BRADFIELD EXPRESSED SOME CONCERN THAT ANY SUCH ARRANGE-

MENT MIGHT TAKE SOME OF THE PRESSURE OFF THE GOP. OTHER MARCONA REPS AND WASHINGTON TEAM DID NOT SEE THIS DANGER IN A RELATIVELY SHORT TERM ESCROW APPROACH WHICH WAS UNDERSTOOD TO BE PART OF DEVELOPING COMPENSATION PACKAGE. BRADFIELD URGED THAT ESCROW ARRANGEMENT BE VERY SHORT TERM AFFAIR. FURTH, HOWEVER, FELT IT WOULD PROBABLY HAVE TO ENVISION A MARCONA ROLE FOR UP TO A YEAR TO MAKE IT A VIABLE PROPOSITION TO START THE WHEELS TURNING AGAIN.

10. DISCUSSION FOLLOWED REGARDING POSSIBILITIES FOR MARCONA TECHNICAL ASSISTANCE TO GOP IN NUMBER OF AREAS, INCLUDING POSSIBLE HELP WITH CHIMBOTE STEEL FACILITY. FISHLOW STRESSED DESIRABILITY OF MARCONA LEAVING WITH A POSITIVE REPUTATION IN PERU AND SAW THIS AS WAY OF ACHIEVING THAT RESULT. FURTH AGREED.

11. MARCONA OFFICIALS REVIEWED PROBLEMS WITH CHIMBOTE, WHICH ARE QUITE SERIOUS AND INCLUDE A FUNDAMENTALLY UNECONOMIC LOCATION. ONE CONSTRUCTIVE COST SAVING STEP WOULD BE TO SHIFT FROM PELLETS TO SINTER AS BASIS RAW MATERIAL AND MARCONA COULD UNDERTAKE THIS PROJECT. HE ESTIMATED IT MIGHT COST ABOUT \$25 MILLION.

12. ASKED ABOUT THE SAN NICOLAS PELLET PLANT, FURTH SAID THAT GOP COULD RUN IT, ALTHOUGH MAINTENANCE WOULD BE PROBLEM OVER THE LONGER RUN. KEY FACTOR WOULD BE THEIR ABILITY TO KEEP AND RECRUIT FOREIGN TECHNICIANS. THEY NOW HAVE 13 WHICH IS DOWN FROM PREVIOUS LEVEL OF 20. COMPTON CITED PURCHASING AS CRITICAL WEAK SPOT. THEY WOULD NEED TO SET UP THEIR OWN PURCHASING OPERATION AND MARCONA COULD GIVE THEM THE NECESSARY ASSISTANCE TO ACCOMPLISH THIS.

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13. FISHLOW EXPLORED NEGOTIATING FLEXIBILITY WITH MARCONA AND ASKED WHETHER THEY WOULD HAVE ANY PROBLEM WITH OUR MOVING TO THE \$100 MILLION LEVEL AT THIS POINT. FURTH REPLIED THAT HE WAS NOT SURE IT WAS TIME TO DO THAT YET, BUT WOULD NOT OBJECT AS LONG AS WE REMEMBERED, "THAT'S ALL SHE WROTE". WASHINGTON TEAM EXPLAINED THAT IT WAS NOT NECESSARILY PLANNING TO MAKE SUCH A PROPOSAL THIS TRIP BUT NEEDED TO HAVE A FEEL FOR MARCONA'S POSITION.

14. IN RESPONSE TO BRADFIELD QUERY, FISHLOW NOTED THAT WE HAD NOT MADE PROPOSAL REGARDING POSSIBLE COMPENSATION IN ORE, BUT WERE HOLDING THAT OPTION IN RESERVE.

15. COMMENT: MARCONA IS OBVIOUSLY PREPARED TO SERIOUSLY

CONSIDER AN INTERIM ARRANGEMENT INVOLVING AN ESCROW ACCOUNT  
AND LOOK FOR WAYS TO FIND PORTION OF COMPENSATION IN SOME  
KIND OF CONTINUING PROFITABLE ROLE FOR MARCONA. DESPITE  
INDICATIONS OF MOVEMENT, HOWEVER, GOP AND MARCONA VIEWS  
OF PROPER VALUATION REMAIN WIDELY DIVERGENT, AS UNDERLINED  
BY FURTH'S REITERATION OF \$100 MILLION BOTTOM LINE FIGURE.  
MARCONA TACTIC APPEARS TO BE TO STICK AT \$100 MILLION UNTIL  
OUTLINES OF FINAL SETTLEMENT PACKAGE BECOME MUCH CLEARER  
AND GOP HAS REVEALED MORE OF ITS OWN HAND.  
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